

MEMORANDUM

NATIONAL SECURITY COUNCIL

February 12, 1975

MEMORANDUM FOR: BRENT SCOWCROFT
FROM: BARBARA BOWIE
SUBJECT: The President's Security
Analysts's Speech

Attached are proposed editorial comments revising pages one and six of the speech.

RECOMMENDATION

That you sign the memorandum to Paul Theis and initial the attached clearance form.

sent to Theis
per MM 2-18
May 17
ON-FILE NSC RELEASE
INSTRUCTIONS APPLY

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR: PAUL THEIS
FROM: BRENT SCOWCROFT
SUBJECT: The President's Security
Analysts's Speech

The following are proposed editorial changes as indicated by the brackets ([]) on pages one and six:

Page one ". . . you in your portfolios and [I] in the polls."

Page six. Proposed revised text attached with revision of first sentence and addition of two sentences in middle paragraph.

--And if no action is taken, by 1977, our dollar outlay could increase to \$32 billion and with [this balance of payments drain, the value of the dollar is placed in jeopardy, with damaging effects on our production and employment at home.]

Congressional action is imperative if the U.S. is to maintain its international leadership. [Since the United States represents such a large proportion of the world economy, anything which seriously dampens our GNP will be reflected in reduced trade with our trading partners and allies, thereby affecting their economic performance.] We cannot expect other nations to tighten their belts without America doing the same. We cannot appear unwilling to take the unpleasant, but necessary steps to cure our energy and economic problems when other nations are facing up to their problems. Oil consuming nations must unite. The surplus of Arab dollars is creating a financial crisis in Western Europe. [Unless we can cope soon with the problem, it will seriously distort trade, capital and monetary flows.] Concerted action is essential to break the cartel's prices.

My administration has offered the first comprehensive solution to our economic and energy problems ever assembled. If we do not act now on the short-term goals, there will be unacceptable costs to the United States -- both domestically and internationally.

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THE WHITE HOUSE
WASHINGTON

February 11, 1975

MEMORANDUM FOR:

GEN. SCOWCROFT

FROM:

PAUL THEIS

SUBJECT:

The President's Security Analysts' Speech

Attached are drafts of proposed Presidential remarks for use before the New York Society of Security Analysts on Thursday.

Would you let us have your comments by 3:00 p.m. Wednesday, February 12, along with your initials on the attached clearance form?

Many thanks.

CLEARANCE FORM FOR PRESIDENTIAL SPEECH MATERIAL

TO: THE PRESIDENT
VIA: ROBERT HARTMANN
FROM: PAUL A. THEIS *PT*
SUBJECT: The President's Security Analysts' Speech

TIME, DATE AND PLACE OF PRESIDENTIAL USE: _____

Thursday afternoon, February 13, 1975, New York City

SPEECHWRITER: Bakshian

EDITED BY: Theis/Friedman

BASIC RESEARCH/SPEECH MATERIAL SUPPLIED BY:
Economic Policy Board, OMB, Research and Scheduling

CLEARED BY (Please initial):

- (x) OPERATIONS (Rumsfeld) _____
- (x) CONGRESSIONAL/PUBLIC LIAISON (Marsh) _____
- (x) PRESS (Nessen) _____
- () LEGAL (Buchen) _____
- (x) ECONOMIC POLICY BOARD (Seidman) _____
- (x) OFFICE OF MANAGEMENT AND BUDGET (Lynn) _____
- () DOMESTIC COUNCIL (Cole) _____
- (x) NATIONAL SECURITY COUNCIL (Scowcroft) _____
- (x) RESEARCH (Waldron) _____
- (x) OTHER Frank Zarb _____
- (x) Alan Greenspan _____
- () _____

SOCIETY OF SECURITY ANALYSTS REMARKS -- FEBRUARY 13, 1975

I understand there have been a lot of rumors going around about the reason for my visit to your organization today. And before I begin, I would like to deny one of them. There is absolutely no truth to the rumor that I have come to deliver CARE packages -- from Alan Greenspan.

It is a great honor and privilege to be speaking to the Society of Security Analysts today -- because in many ways, we have shared the same problems. But we also share the same hopes and a basic optimism. An optimism best stated in this very short poem:

I believe in the future of Wall Street;

I believe in the capital gain way.

I believe in the strength of America --

And not in Eliot Janeway.

And so, looking to the future, I am confident that you in your portfolios and ~~me~~^I in the polls, have seen our lows for the year.

Of course, I realize that not everyone shares this optimism. Eliot

Janeway isn't the only voice crying economic doom in the night. Just last

Sunday, George Meany was on network television to announce that the sky was falling -- and I have to admit that some of the economic forecasts of my own advisers have been strong on clouds and weak on silver linings.

But, if I may paraphrase Mark Twain, the reports of the free enterprise system's death have been greatly exaggerated.

Take a second look at these gloomy forecasts.

Even the best forecasters sometimes have trouble.

Grim statistics tend to assume a life and momentum of their own. So, when the rate of joblessness has gone up 3 percent above normal, the tendency among forecasters is to look for a further rise, not a turnaround.

Forecasts are only forecasts. They are not God-given commandments, carved upon stone. The thing we should concentrate on now is not what someone

has forecast, but what we can do to change conditions and events.

America's economic future does not depend on paper projections.

We are in a difficult situation. But if we approach it with practical, tough-minded optimism, we can cope.

An economic illness is like any other illness. Too much medicine or too little medicine can make it worse. The crucial issue is how much treatment to give.

This was what I had to decide in drawing up a comprehensive economic program. Too small a tax cut would not really help the average citizen. Too large a Federal deficit would soak up too much capital and fan the flames of inflation.

A realistic balance had to be struck. I believe the program I have submitted comes as close as possible under present conditions.

I am hopeful that we can and will have unemployment down to 6 percent by the end of this year.

But in stimulating the economy to create more jobs, neither

the Congress nor I can afford to forget the dangers of another round of uncontrolled inflation.

Unemployment is the biggest concern of the 8.2 percent of Americans temporarily out of work. But inflation is the universal enemy of not just 8.2 percent, but 100 percent of our people.

We must not fight recessionary problems with inflationary cures.

I will work with the Congress to avoid this danger and will use my veto, if necessary, to protect the American people from inflationary new spending programs.

The current recession is compounded by hitting us at the same time as the energy crisis. Neither problem can be ignored; each makes solving the other more difficult.

Some would like to forget about the energy challenge and concentrate all attention and resources on recession.

I only wish we could. But we simply cannot afford to turn our backs on the energy challenge while we still have a chance to avoid a

disaster that could wreck not only our own economy, but the economic structure of all industrialized democracies.

Without question, there is a link between economic problems at home and the world energy situation complicated by the international oil cartel -- and most Americans are well aware of this.

It is my hope that a responsible majority of both parties in the Congress will not only recognize the problem, but agree on a solution.

We cannot afford any more wasted time.

Last winter's oil embargo brought widespread agreement that a comprehensive energy policy is needed. We have analyzed and debated the options. Delay will only compound the problem.

We must begin now. Our oil and gas supplies will continue to dissipate

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and imports will grow, unless we take immediate steps to reduce our consumption of oil and develop new supplies.

Even if all the actions I proposed to the Congress were taken immediately, we will ^{STILL BE} importing, by the end of 1977, about 8 million barrels of oil per day -- 25 percent more than at the time of the last embargo. At this level of imports:

--Half of our oil could be coming from OPEC countries.

--If another Arab oil embargo were to be imposed in 1977, we could be faced with a cutoff of 4 million barrels per day which would have serious repercussions for our economy.

--There could be approximately a \$40 billion drop in the Gross National Product which could leave an additional 2 million people unemployed.

Unless we begin immediately to cut consumption by 1 million barrels per day, our dollar outlay for petroleum will continue to increase dangerously.

--In 1970, our dollar outlay was \$2.7 billion;

--Last year it rose to \$24 billion;

increase to \$32 billion and with these import dollars go the

This balance of payments drain the value of the dollar is placed in jeopardy, with jobs they would otherwise create. damaging effect on our production & employment at home.

Congressional action is imperative if the U.S. is to maintain its

since the United States represents such a large proportion of the world economy, anything which seriously dampens GNP will be reflected in reduced trade with partners
international leadership. We cannot expect other nations to tighten their

belts without America doing the same. We cannot appear unwilling to take

the unpleasant, but necessary steps to cure our energy and economic

problems when other nations are facing up to their own problems. Oil

consuming nations must unite. The surplus of Arab dollars is creating a

financial crisis in Western Europe. *Unless we can cope soon with the problem it will seriously distort trade, capital and monetary flows*
Concerted action is essential to break

the cartel's prices.

My administration has offered the first comprehensive

solution to our economic and energy problems ever assembled. If we

do not act now on the short-term goals, there will be unacceptable costs

to the United States -- both domestically and internationally.

National recovery depends on a decisive and purposeful American policy.

--Only by cooperative efforts among the major industrial nations,

and a constructive dialogue with the oil producers can an

equitable oil price be restored.

-- Only by new mechanisms of cooperation and mutual support

can the industrial democracies safeguard their economies against

a new embargo or international financial disruption.

-- Only if the United States takes the lead will our partners have

any hope of an ultimate solution, or any incentive to commit

themselves to cooperation with us.

-- And only with a determined national effort to reduce and end

our growing dependence on imported oil can we and our partners

recover control over our economic destiny.

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In meeting the energy challenge, I seek a coalition -- not a confrontation -- with the Congress. But in order for us to work together, the Congress must do more than criticize. And until the Congress does something more, it will be part of the energy problem -- not part of the solution.

Important as the flow of energy is to our economy, the flow of capital, and its distribution, is equally vital.

In addressing a Wall Street audience,

it is customary to point out that the American capital markets are the envy of the world financial community -- that we raise great capital for government and private industry and the changing requirements of ~~some~~ investors.

The strength of our markets results from the vitality of our economy. ~~It~~ ^{It} also reflects the dynamic character of those who make the markets work -- the brokers, investment bankers,

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fiduciaries and "institutional" investors, and, of course, the security analysts.

It is your _____ ingenuity which has enabled our markets to respond to _____ new demands by governments, corporations and investors.

_____ In the last decade alone, over \$700 billion of new capital has been raised through new security issues.

To accomplish this, you coped _____ with significant changes in the requirements of those seeking to raise capital and in the _____ attitudes of investors.

I doubt whether ^{ny} may of you would have predicted fifteen years ago the rapidity of the build-up in funds for investment in the hands of fiduciaries, or the direction this investment would take.

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The system has been strained by these developments. There has been tremendous volatility in equity trading. But the market system and those who make it work have bounced back time and again.

I am heartened by the recent show of optimism in the securities markets. I hope that it reflects confidence on the part of investors that our recovery program will have the longer term benefits we expect.

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We will not solve our problems overnight.

Demands on the capital markets of the next decade may be substantially different from those you have been dealing with in the past.

There will be an even greater requirement for new capital to meet the challenge for energy independence.

And this will occur at a time when the government will be calling on the capital markets to finance the deficit spending critical to our plan for economic recovery.

At the same time, many corporations will be seeking equity capital in the markets to replace cash flow lost to inflation. Further complicating the problem, investors may be cautious about purchasing equities after experiencing the dramatic decline in equity values of recent years.

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Yet I remain confident that the financial community will rise to challenge.

But in spite of the shock, or perhaps because of it, the securities industry may be leaner and stronger today than during the period of buoyant stock prices. The new financial community will be more balanced, more flexible, more efficient.

In recognition of the difficulty many companies face in raising needed equity capital, my economic program provides that corporations be permitted to issue a new type of preferred stock. The dividends on this stock would be deductible for income tax purposes. This proposal is intended to eliminate the tax advantage to issuing debt as opposed to equity.

The intent of Governmental action is to provide the most efficient and open system -- to enable the financial community to respond most effectively. You must provide the leadership.

America will meet the challenge. Your success will be part of

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the renewal of our over-all economic system.

A security analyst told me that the most frequent request made of your profession is: "Don't tell me what to buy -- tell me when."

Well, I'd like to answer that question today: I buy America.

And I thank you.

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